

193970

STATE OF SOUTH CAROLINA)

(Caption of Case))

Annual Review of Purchased Gas Adjustment
and Purchased Gas Policies of South Carolina
Electric & Gas Company)

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 2008 - 5 - G

(Please type or print)

Submitted by: Benjamin P. Mustian

SC Bar Number: 68269

Telephone: 803-252-3300

Address: Post Office Box 8416

Fax: 803-771-2410

Columbia, SC 29202

Other: _____

Email: bmustian@willoughbyhoefer.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

Emergency Relief demanded in petition

Request for item to be placed on Commission's Agenda expeditiously

Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input checked="" type="checkbox"/> Proposed Order	<input type="checkbox"/> Other: _____
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	_____
<input type="checkbox"/> Other: _____	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input checked="" type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

Print Form

Reset Form

WILLOUGHBY & HOEFER, P.A.

ATTORNEYS & COUNSELORS AT LAW

930 RICHLAND STREET

P.O. BOX 8416

COLUMBIA, SOUTH CAROLINA 29202-8416

MITCHELL M. WILLOUGHBY
JOHN M.S. HOEFER
RANDOLPH R. LOWELL
ELIZABETH ZECK*
BENJAMIN P. MUSTIAN
MICHAEL R. BURCHSTEAD

AREA CODE 803
TELEPHONE 252-3300
TELECOPIER 256-8062

TRACEY C. GREEN
SPECIAL COUNSEL

*ALSO ADMITTED IN TX

July 18, 2008

VIA HAND DELIVERY

The Honorable Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, South Carolina 29210

RECEIVED
2008 JUL 18 PM 1:12
SOUTH CAROLINA PUBLIC SERVICE COMMISSION

RE: South Carolina Electric & Gas Company – Annual Review of the Purchased Gas Adjustments and Gas Purchasing Policies
Docket No. 2008-5-G

Dear Mr. Terreni:

Enclosed for filing are the original and ten (10) copies of proposed Order Approving and Adopting Settlement Agreement in the above-referenced matter. Also enclosed, please find the originals and ten (10) copies of South Carolina Electric & Gas Company's Late-Filed Exhibits as requested by the Commission during the public hearing held on July 8, 2008.

By copy of this letter, I am serving a copy of these documents upon all parties of record and enclose a Certificate of Service to that effect. I would appreciate your acknowledging receipt of these documents by date-stamping the extra copies that are enclosed and returning them to me via my messenger.

If you have any questions or if you need any additional information, please do not hesitate to contact us.

Very truly yours,

WILLOUGHBY & HOEFER, P.A.



Benjamin P. Mustian

BPM/cf
enclosures

The Honorable Charles Terreni

July 18, 2008

Page 2

cc: Shannon Bowyer Hudson, Esquire (w/enclosures)
Shealy Boland Reibold, Esquire (w/enclosures)
Catherine D. Taylor, Esquire (w/enclosures)
K. Chad Burgess, Esquire (w/enclosures)
Belton T. Zeigler, Esquire (w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-5-G – ORDER NO. 2008-_____
JULY __, 2008

RECEIVED
2008 JUL 18 PM 4:18
SOUTH CAROLINA
PUBLIC SERVICE
COMMISSION

IN RE:)
)
Annual Review of Purchased Gas) ORDER APPROVING
Adjustment and Gas Purchasing Policies) AND ADOPTING
Of South Carolina Electric & Gas Company) SETTLEMENT AGREEMENT
_____)

Order No. 87-898, issued on August 14, 1987, requires that the Public Service Commission of South Carolina (“Commission”) conduct annual reviews of the Purchased Gas Adjustments and the Gas Purchasing Policies (“PGA”) of South Carolina Electric & Gas Company (“SCE&G” or “Company”). Pursuant to that order, the Commission opened the present docket for the purpose of conducting SCE&G’s 2008 Annual PGA Review. On February 22, 2008, the Commission issued a notice of hearing and set return dates for filing to intervene.

By letter dated February 22, 2008, the Commission instructed the Company to publish a notice in a newspaper of general circulation in the affected areas advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this review. The Commission further instructed SCE&G to provide direct notification of the PGA review to each affected customer. The Company filed affidavits to confirm its compliance with the Commission’s instructions.

The South Carolina Office of Regulatory Staff (“ORS”) appeared as a party in this matter pursuant to S.C. Code Section 58-4-10 (Supp. 2007). As the gas utility under review, SCE&G

was made a party directly in the notice and appeared by counsel in the proceeding. ORS and SCE&G are hereafter referred to collectively as the “Parties” or sometimes individually as a “Party.” No other parties sought to intervene in this proceeding.

By letter dated February 22, 2008, the Commission’s Docketing Department issued scheduling directions to all Parties establishing the dates for the Parties to pre-file testimony and exhibits in this case.

The period under review in this docket is March 1, 2007 through February 29, 2008 (“Review Period”).

On May 13, 2008, SCE&G pre-filed the direct testimony of witnesses Harry L. Scruggs, Martin K. Phalen, James E. Swan, IV, and Rose Jackson. On May 27, 2008, ORS pre-filed the testimony of witnesses Roy H. Barnette and Carey M. Flynt. On July 1, 2008, the Parties to the proceeding filed a comprehensive Settlement Agreement (the “Settlement Agreement”) wherein they stipulated to a resolution of all issues in the proceeding. The Settlement Agreement includes the settlement testimony of Rose Jackson.

The Commission conducted a formal hearing in this matter on July 8, 2008, beginning at 2:00 p.m. in the office of the Commission, with the Honorable G. O’Neal Hamilton, presiding. K. Chad Burgess, Esquire, Mitchell Willoughby, Esquire, and Belton T. Zeigler, Esquire represented the Company. Shannon Bowyer Hudson, Esquire and Shealy Boland Reibold, Esquire represented ORS.

At the opening of the hearing, Ms. Shannon Bowyer Hudson, counsel for ORS, moved the Settlement Agreement between the Parties into the record along with the pre-filed testimony and exhibits of all ORS witnesses. Mr. Chad Burgess moved into the record the pre-filed testimony and exhibits of all SCE&G witnesses. The Settlement Agreement adopted the cost of

gas calculations for the Review Period as set forth in ORS Audit Exhibit RHB-1, which was attached to the testimony of Roy H. Barnette.

In support of its PGA and Gas Purchasing Policies and the Settlement Agreement and as stipulated in the Settlement Agreement, SCE&G presented direct testimony from Martin K. Phalen, Rose Jackson, James E. Swan, IV, and Harry L. Scruggs. ORS presented direct testimony from Roy H. Barnette. Consistent with the terms of the Settlement Agreement, the witnesses who pre-filed direct testimony in this proceeding and orally presented such testimony before the Commission were subject to questioning by the Commissioners, and not by any party.¹

Hearing Exhibit 1 is the Settlement Agreement, Hearing Exhibit 2 contains the exhibits of Roy H. Barnette, and Hearing Exhibit 3 contains the composite exhibits of SCE&G witnesses Martin K. Phalen, Rose Jackson and Harry L. Scruggs. In addition, three additional exhibits were requested by the Commission and provided by SCE&G on July 18, 2008 as follows: Hearing Exhibit 4 describing segmentation, Hearing Exhibit 5 describing the average monthly bill of a residential customer who consumed 100 therms of gas during July 2008, and Hearing Exhibit 6 describing the difference in the municipal fee described in Harry Scruggs's direct testimony and in Exhibit HLS-1 to Harry L. Scruggs's direct testimony.

The Commission has considered the testimony and the exhibits of the witnesses and the other evidence of record in this proceeding including the Settlement Agreement. Based on this factual record, the Commission concludes, as the Parties have stipulated, that adoption of the Settlement Agreement is in the best interest of SCE&G's customers, the State of South Carolina, and the financial integrity of the Company.

¹ ORS Witness Carey M. Flynt was unable to appear at the hearing. The Parties stipulated to her direct pre-filed testimony and the Commission entered her testimony into the record of this proceeding.

In making this finding, the Commission specifically finds that during the Review Period, SCE&G: a) properly administered the purchased gas adjustment; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider (“ISP-R”) prudently and reasonably and in accordance with the terms of Order No. 2005-619, adopting the Settlement Agreement entered into in Docket No. 2005-113-G, which authorized that program in its current form; d) except as described in the ORS testimony of Roy H. Barnette in this docket, recovered its gas costs consistent with applicable tariffs and Commission orders;² e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679; and f) was prepared during the review period and is currently prepared to meet its firm customers’ projected needs via its future supply and capacity asset plans.

The Commission finds, as stipulated by the Parties in the Settlement Agreement, that the demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. The Commission further finds that SCE&G should use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors. The allocation factors contained on page 3 in Mr. Scruggs’s pre-filed direct testimony (Residential 66.84%; Small General Service/Medium General Service 29.95%; Large General Service 3.21%) are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of November 2008.

² As reported in Witness Barnette’s prefiled testimony, SCE&G inadvertently failed to implement a revised gas tariff filed under its gas cost recovery mechanism for the month of June 2007. The error was not discovered and corrected until after 6 billing cycles had been completed. The error resulted in an underbilling during the month of June 2007 of \$57,174. To adjust for this underbilling, ORS proposes to add the amount of \$57,174 to the Company’s overcollection total. SCE&G agrees to this adjustment.

The Commission further approves the authority of SCE&G to charge and recover carrying costs, if applicable, on the cumulative total over or under-collection balances using the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679 for the same reasons set forth in that Order. Additionally, the Commission finds that the approximately \$10.5 million in credits distributed to gas residential and small/medium general service customer classes from the Prepaid Municipal Fee Account and as further set forth in Docket No. 2007-459-E and Order No. 2008-49 is reasonable.

The Commission finds, as stipulated by the parties, that the Company conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679 and Docket No. 2007-5-G, Order No. 2007-595. The Parties have agreed and stipulated that the hedging program should continue through the next review period with certain modifications:

- a) the percentage of volumes that may be hedged should be reduced from up to 50% to up to 25%;
- b) SCE&G agrees to utilize the dollar cost averaging methodology;
- c) SCE&G will eliminate the Kase ezHedge™ model and any future associated operating and administrative costs with Kase and Company, Inc. for the use of that model once the current contract expires on September 30, 2008;
- d) the Company will reduce the number of forward months on which hedges may be placed to twelve months; and
- e) SCE&G agrees to use call options instead of fixed price instruments where the premium for any call option purchased will be the lesser of or equal to:

- 1) 10% of current market price of natural gas for the month being hedged,
- or 2) the cost of an at-the-money³ call option for the month being hedged.

Additionally, the Commission finds, as stipulated by the parties, that SCE&G should settle its current outstanding hedge positions which expire beyond the twelve month time period described in subsection d) above by taking corresponding offsetting financial positions in the market if the resulting aggregate settlement in total results in a gain. SCE&G should apply this gain to the gas cost over/under collection account used in the cost of gas calculation factor in the month the settlements occur. Further, SCE&G shall continue to report to the ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

Based on the Settlement Agreement and the testimony and exhibits entered into the record, the Commission finds that the Company's gas purchasing policies and practices during the Review Period and as stipulated by the Parties were reasonable and prudent. The Commission further finds that all matters contained in the Settlement Agreement are appropriate for adoption in this proceeding and therefore finds that the Settlement Agreement is in the public interest and is a reasonable resolution of all issues in this case.

NOW THEREFORE, based upon the foregoing, **IT IS HEREBY DECLARED AND ORDERED THAT:**

1. The Settlement Agreement attached hereto as Order Exhibit No. 1, which was stipulated to by all Parties and accepted into the record without objection at the hearing, is

³ An option is at-the-money if the strike price is the same as the current price of the underlying security on which the option is written. The strike price is the price the option holder must pay to exercise the option.

incorporated into and made a part of this Order. Further, the Settlement Agreement constitutes a reasonable resolution to this proceeding and is hereby adopted as such.

2. SCE&G's gas purchasing policies and practices during the Review Period and as stipulated by the Parties were within the guidelines established in prior Commission orders and were reasonable and prudent.

3. With the adjustment described by ORS Witness Barnette, SCE&G recovered its gas costs consistent with applicable tariffs and Commission orders during the Review Period.

4. The appropriate cost of gas calculations for the Review Period are as set forth in ORS Audit Exhibit RHB-1, as attached to the testimony of Roy H. Barnette.

5. The demand charges included in the total cost of gas factors should continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales.

6. The allocation factors contained in Mr. Scruggs's pre-filed direct testimony are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of November 2008.

7. SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over or under collection balances in the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679.

8. The approximately \$10.5 million in credits distributed to gas residential and small/medium general service customer classes from the Prepaid Municipal Fee Account and as further set forth in Docket No. 2007-459-E and Order No. 2008-49 is reasonable.

9. SCE&G has conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679. SCE&G shall continue its hedging program under the terms approved by the Commission in Docket No. 2006-5-G, Order No. 2006-679, with the modifications stipulated by the Parties and as set forth in the Settlement Agreement, until further order of the Commission.

10. SCE&G shall settle its current outstanding hedge positions which expire beyond the twelve month time period as further described in Paragraph 7 (d) of the Settlement Agreement by taking corresponding offsetting financial positions in the market if the resulting aggregate settlement in total results in a gain. SCE&G shall apply this gain to the gas cost over/under collection account used in the cost of gas calculation factor in the month the settlements occur.

11. SCE&G shall continue to report to ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Elizabeth B. Fleming, Chairman

ATTEST:

John E. Howard, Vice-Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

SO. PUBLIC SERVICE
COMMISSION

2008 JUL 18 PM 4:13

RECEIVED

IN RE:)
)
Annual Review of Purchased Gas)
Adjustment and Gas Purchasing Policies)
Of South Carolina Electric & Gas Company)
_____)

CERTIFICATE OF SERVICE

This is to certify that I have caused to be served this day one (1) copy of the **Proposed Order Approving and Adopting Settlement Agreement and Late-Filed Exhibits** via electronic mail and by placing same in the care and custody of the United States Postal Service with first class postage affixed thereto and addressed as follows:

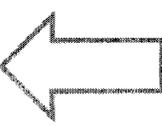
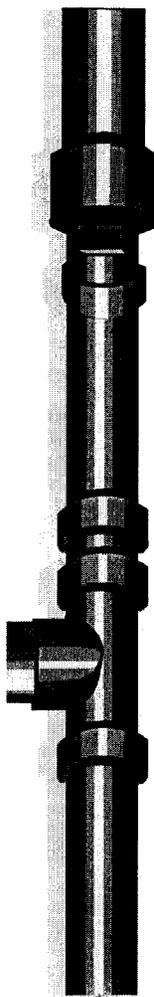
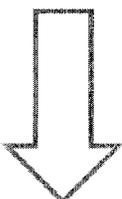
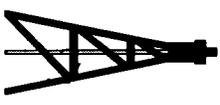
Shannon Bowyer Hudson, Esquire
Shealy Boland Reibold, Esquire
Office of Regulatory Staff
Post Office Box 11263
Columbia, South Carolina 29211

Clark Fancher
Clark Fancher

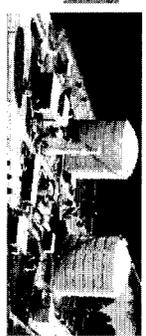
Columbia, South Carolina
This 18th day of July, 2008.

Segmentation Example

40,000 Dts of gas delivered from the Gulf Coast



40,000 Dts of gas delivered from the Bushy Park LNG plant



Total of 80,000 Dts of gas delivered to Charleston Area using the same 40,000 Dts of firm transport on CGTC

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-5-G

IN RE:)
)
Annual Review of Purchased)
Gas Adjustment and Gas Purchasing) HEARING EXHIBIT NO. 5
Policies of South Carolina Electric &)
Gas Company)
_____)

On July 8, 2008, at the hearing in the above-captioned matter, the Public Service Commission of South Carolina requested that South Carolina Electric & Gas Company (“SCE&G”) provide information concerning the average monthly bill of a residential customer who consumed 100 therms of natural gas.

If an SCE&G residential customer purchases natural gas service pursuant to Rate 32 Standard and consumes 100 therms of gas during the month of July 2008, then the Company will charge that customer \$182.37 for natural gas. If an SCE&G residential customer purchases natural gas service pursuant to Rate 32 Value and consumes 100 therms of gas during the month of July 2008, then the Company will charge the customer \$176.37 for natural gas. On average, an SCE&G residential customer who consumes 100 therms of natural gas during the month of July 2008 will be charged \$179.37.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-5-G

IN RE:)
)
Annual Review of Purchased)
Gas Adjustment and Gas Purchasing) HEARING EXHIBIT NO. 6
Policies of South Carolina Electric &)
Gas Company)
_____)

On July 8, 2008, at the hearing in the above-captioned matter, the Public Service Commission of South Carolina requested that South Carolina Electric & Gas Company (“SCE&G”) reconcile certain amounts included within a statement made in the direct testimony of Harry L. Scruggs with an amount included within Hearing Exhibit No. 3, namely HLS-1.

Municipal Fee Credit

In his direct testimony Mr. Scruggs stated, “The Residential customer class received a [municipal fee] credit in the amount of \$7,198,282, and the SGS/MGS customer class received a credit of \$3,300,962.” At the hearing, Commissioner Fleming inquired as to why the sum of \$7,198,282 and \$3,300,962 (which is \$10,499,244) did not equal the adjustment totaling \$10,540,218 in Column 7 for January 2008 in HLS-1. The difference between \$10,499,244 and \$10,540,218 is \$40,974.

Adjustment No. 1

The dollar amounts of \$7,198,282 and \$3,300,962 reported by Mr. Scruggs in his direct testimony reflect the amount of the credit resulting from the accumulation of municipal fee

payments collected over an extended period of time and made to the residential and small general service customer groups, respectively. As part of the adjustment for January 2008, SCE&G calculated interest, pursuant to the methodology set forth in Commission Order No. 2006-679 issued in Docket No. 2006-5-G that SCE&G employs to compute interest for any over/under collection amounts, on the municipal fee credit of \$10,499,244. This calculation resulted in an addition of \$40,978 to the municipal fee credit. Consequently, the municipal fee credit increased to \$10,540,222.

Adjustment No. 2

In addition to the municipal fee credit of \$10,540,222, a second adjustment occurred in January 2008. By way of background, in November 2007, SCE&G was not billed for natural gas in the amount \$4.00. As a result, SCE&G did not include this amount as part of its demand charge cost of gas. After the discovery of this omission, SCE&G received a bill in January 2008 for natural gas which included the \$4.00 charge for gas that had not been previously billed to SCE&G. To account for this gas charge, SCE&G made an adjustment in January 2008 which had the effect of reducing SCE&G's cumulative over/under collection balance in the amount of \$4.00.

Cumulative Adjustment and Reconciliation

The cumulative adjustment for January 2008 is \$10,540,218. This adjustment is calculated as follows:

[Municipal Fee Credit] + [Adjustment No. 1] - [Adjustment No. 2] = Cumulative Adjustment

$$[\$10,499,244] + [\$40,978] - [\$4.00] = \$10,540,218$$

Based upon the foregoing, the cumulative adjustment of \$10,540,218 reconciles with the statement made by Mr. Scruggs in his direct testimony concerning the municipal fee credit.